



## INDUSTRIAL SPECIAL INDEMNITY FUND

### Third Quarter Report September 30, 2004 Calendar Year 2004

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The Industrial Special Indemnity Fund (ISIF) files its Third Quarter Report for calendar year 2004 pursuant to Idaho Code §72-324. This report consists of the following chapters: Benefits, Claims Adjudication and Administrative Operations.

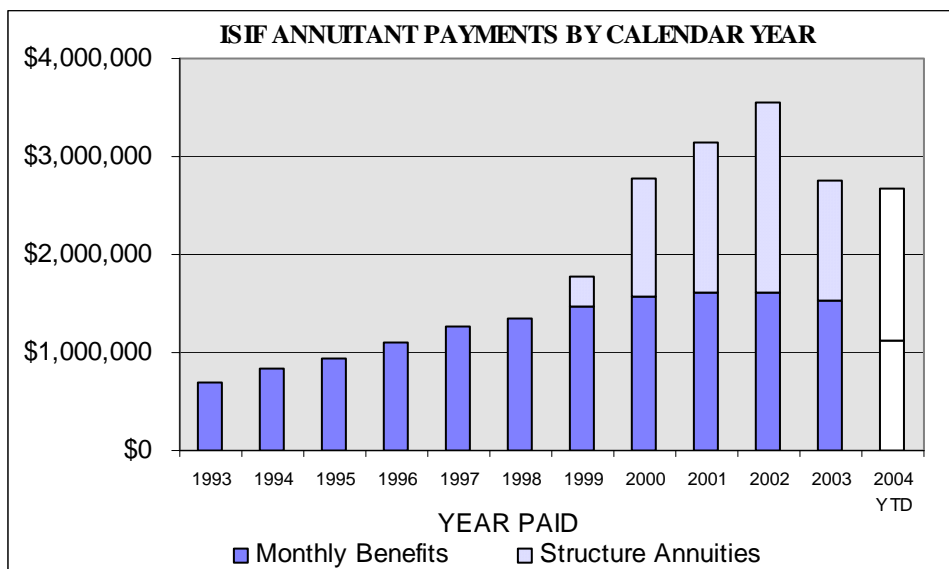
## BENEFITS

### *Annuitant Periodic Benefits*

Annuitant benefits are paid to individuals who have been awarded or have negotiated a settlement for periodic monthly benefits. Benefits are paid based on a percentage of the applicable state average weekly wage for year of benefit, the year of the injury and the injured worker's average weekly wage. Most annuitant benefits are also subject to the Carey formula, which apportions total and permanent disability benefits between the ISIF and the employer/surety. Annuitant benefits generally are paid for life. The 2004 state statutory rates for annuitant benefits are as follows:

2004 STATE AVERAGE WEEKLY WAGE	
Base of 45% state average weekly wage =	\$240.30
Base of 60% state average weekly wage =	\$320.40
Base of 67% state average weekly wage =	\$357.78

As of the third quarter of calendar year 2004, ISIF had 107 annuitants who received \$1,122,564 year to date 2004. Total annuitant benefits paid in calendar year 2003 were \$1,534,370. Six structure policies totaling \$1,228,821 were purchased in 2003. Nine structure policies were purchased year to date 2004 totaling \$1,551,933. Structure annuities have been utilized the prior five years as means to fund future annuitant monthly benefits as shown by the graph below.



An arrearage benefit may be owed at the conclusion of a claim and prior to the commencement of current monthly benefits. An arrearage is most likely to occur on judgment loss or consent to entry of judgment claims. Arrearage benefits paid in 2003 total \$38,404. Year to date arrearage benefits paid in 2004 total \$81,786.

<b>MONTHLY &amp; ARREARAGE BENEFIT</b>			
CALENDAR YEAR			
	2004 YTD	2003 YTD	2003 Total
Monthly Benefit	\$2,674,498	\$2,376,422	\$2,763,192
Arrearage Benefit	81,786	38,404	38,404
Total Benefit	\$2,756,284	\$2,414,826	\$2,801,596

### *Settlement Benefits*

Lump sum and lump sum/statutory benefits are the two types of settlement options. Lump sum benefits are one time only cash payments issued upon settlement of a claim. Lump sum/statutory benefits are settlements in which a lump sum payment may be made upon settlement; however, some form of future periodic benefit will also be paid.

Future periodic benefits vary in amount and time frame depending upon the terms of settlement. Generally, the periodic payments are based on a percentage of the state's average weekly wage for year of benefit and paid monthly for the life of the claimant. Lump sum/statutory benefit settlements represent substantial lifetime benefits.

<b>LUMP SUM BENEFIT</b>		
CALENDAR YEAR		
	2004 YTD	2003 YTD
No. Claims	24	24
Total Lump Sum	\$640,000	\$704,500

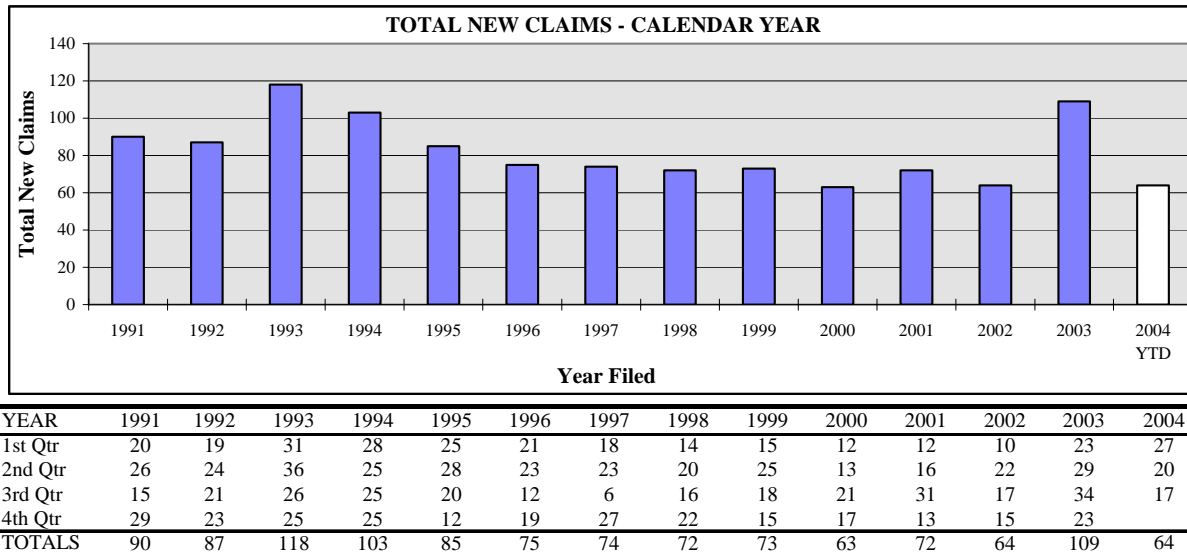
Twenty-four claims were closed with lump sum benefits in calendar year to date 2004. In calendar year 2003, a total of thirty-five claims were closed with a lump sum benefit averaging \$30,557 per settlement.

In 2004 year to date, three claims were closed by lump sum/statutory benefit. There was one claim closed by lump sum/statutory benefit in calendar year 2003. In addition to lump sum/statutory benefit settlements, judgment loss decisions by the Industrial Commission result in additional annuitant claims receiving future periodic payments. Benefits for judgment loss claims are based on a percentage of the state's average weekly wage and are paid for life with annual increases. The ISIF received three judgment loss decisions in calendar year 2003, and two year to date in 2004.

## CLAIMS ADJUDICATION

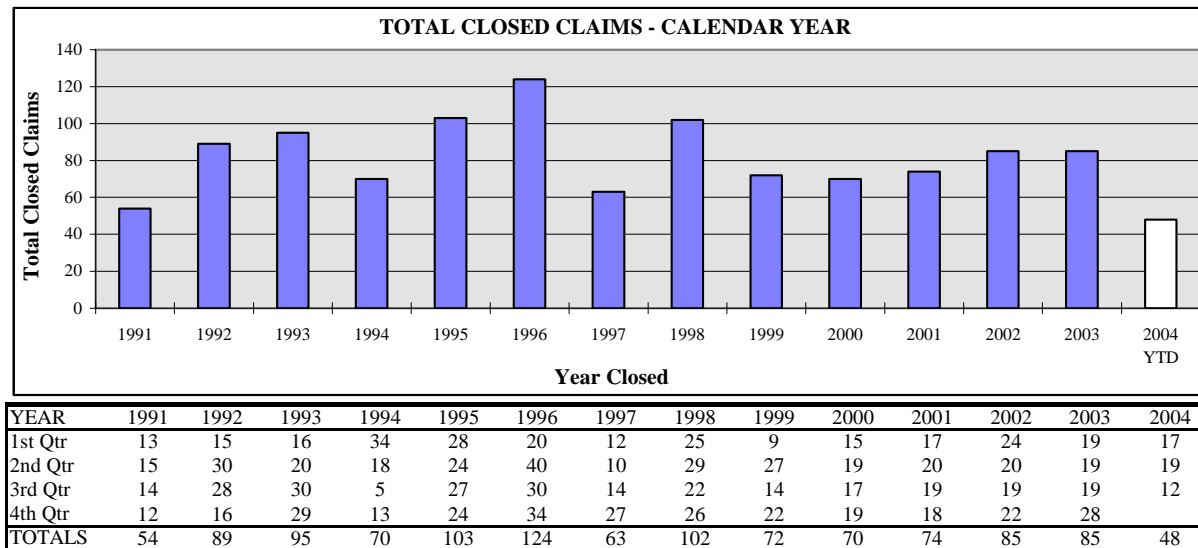
Claims adjudication is a two-fold process involving both the filing of formal or informal claims by claimants and/or employer/sureties alleging ISIF liability, and the final determination of those claims by result outcomes (non-merit, settlement or judgment loss).

### *New Claim Filings*



New claim filings had stabilized over the past seven years averaging 70 filings per year. However, 2003 new claim filings were nearly 60% higher than in previous years and this trend is continuing for 2004. In general, these new claims represent potentially greater liability as workers compensation claims become more complex legally and medically, with economic downturns creating more difficult return to work issues.

### *Closed Claims*



During the first three quarters of calendar year 2004, 64 claims were opened and 48 claims were closed resulting in a net of 97 open litigated claims as of September 30, 2004.

## Result Outcomes

The result outcome category, the number of claims closed by each result outcome, and the percentage of claims closed in each result category is shown below. In 2004 year to date, non-merit and settled claims accounted for 96% of the total closed claims. For calendar year 2003, non-merit and settled claims accounted for 96% of the total closed claims. These percentages follow very closely the same result percentages of previous years.

<b>RESULT OUTCOMES</b>					
	2004 YTD	% Total	2003 YTD	2003 Total	% Total
<b>Non-merit Claims:</b>				No.	
Dis W/O	1	2%	3	3	4%
Dis W/P	2	4%	2	2	2%
Judg Win	4	8%	2	2	2%
Denied	12	25%	23	35	41%
<b>Settled Claims:</b>					
LSS	24	50%	24	35	41%
LSS/Stat Bens	3	6%		1	1%
<b>Judgment Loss:</b>					
Judg Loss	2	4%	2	3	4%
<b>Other:</b>					
Appeal - Affirmed			1	1	1%
Appeal - Reversed				1	1%
Appeal-Dismissed				2	2%

<b>RESULT OUTCOMES DEFINITION</b>
<b>Non-merit Claims</b> <ul style="list-style-type: none"> <li>* Dismissal without Prejudice - Dismissal by the Industrial Commission but allows the claimant to sue again on the same cause of action.</li> <li>* Dismissal with Prejudice - Final disposition of a claim by the Industrial Commission barring the right to bring another claim on the same cause.</li> <li>* Judgment Win - Final decision by the Industrial Commission on a fully litigated claim determining no liability to the ISIF.</li> <li>* Denied - An in-house denial of ISIF liability.</li> </ul>
<b>Settled Claims</b> <ul style="list-style-type: none"> <li>* LSS - Lump sum settlement agreement.</li> <li>* LSS/Stat Bens - Lump sum settlement that includes monthly benefits to be paid in the future.</li> </ul>
<b>Judgment Loss</b> <ul style="list-style-type: none"> <li>* Judgment Loss - Final decision by the Industrial Commission on a fully litigated claim determining ISIF to have liability.</li> </ul>
<b>Appeal Affirmed</b> <ul style="list-style-type: none"> <li>* Appeal from the Industrial Commission decision affirmed by the State Supreme Court.</li> </ul>
<b>Appeal Reversed</b> <ul style="list-style-type: none"> <li>* Appeal from the Industrial Commission decision reversed by the State Supreme Court.</li> </ul>

## LITIGATION COSTS ASSOCIATED WITH SETTLEMENT & JUDGMENT LOSS CLAIMS

TOTAL LITIGATION COST BY RESULT OUTCOME						
	LUMP SUM		LSS WITH STAT BEN		JUDGMENT LOSS	
	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost
1995	47	210,418	10	97,099	2	49,872
1996	54	314,303	12	86,733	6	53,668
1997	32	237,894	7	25,676	2	28,676
1998	37	212,409	9	45,657	2	30,308
1999	31	111,326	4	33,085	3	82,207
2000	23	93,595	3	4,786	2	34,101
2001	31	193,216	2	5,347	1	11,870
2002	46	66,737	2	8,115	3	43,238
2003	35	106,178	1	984	3	40,499
TOTAL	336	\$1,546,076	50	\$307,481	24	\$374,439
AVERAGE CLAIM COST BY RESULT		\$4,601		\$6,150		\$15,602
2004 YTD	24	\$90,505	3	\$11,524	2	\$35,928
AVERAGE CLAIM COST BY RESULT		\$3,771		\$3,841		\$17,964

## LITIGATION COSTS ASSOCIATED WITH NON-MERIT CLAIMS

TOTAL LITIGATION COST BY RESULT OUTCOME								
	DIS W/O		DIS W/P		DENIED		JUDGE W	
	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost	Number Claims	Litigation Cost
1995	21	108,818	1	2,929	11	6,374	4	58,350
1996	16	42,762	0	0	10	16,710	19	350,925
1997	6	22,195	0	0	7	195	7	169,624
1998	17	91,848	2	30,033	21	16,790	12	191,583
1999	8	46,441	0	0	12	14,320	12	192,003
2000	5	46,220	2	13,384	21	2,636	8	175,166
2001	4	28,206	1	7,313	19	1,466	9	161,758
2002	6	61,369	1	13,768	18	3,060	6	135,022
2003	2	2,643	1	259	35	14,007	2	38,194
TOTAL	85	\$450,502	8	\$67,686	154	\$75,558	79	\$1,472,625
AVERAGE CLAIM COST BY RESULT		\$5,300		\$8,461		\$491		\$18,641
2004 YTD	1	\$4,326	2	\$13,674	12	\$5,887	4	\$71,204
AVERAGE CLAIM COST BY RESULT		\$4,326		\$6,837		\$491		\$17,801

### *Litigation Expense*

Total litigation costs represent the average defense expense of a claim by result outcome category. While many factors affect overall litigation costs, Idaho Code §72-334, the “60 day” rule, has contributed to substantial litigation savings since its passage in 1997. The “60 day” rule requires a party to file a Notice of Intent with supporting documentation with the ISIF 60 days prior to filing a Complaint.

Litigation costs are expended to fourteen sub-object codes as bills are paid during a claim's adjudicated life. Once the adjudication process is completed, a report is submitted to the Industrial Commission reporting all litigation costs incurred during the life of the claim.

<b>LITIGATION EXPENDITURES</b> QUARTER & CALENDAR YEAR REPORT							
<i>Litigation Expenditures</i>	1st Quarter 2004	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	2004 YTD	2003 YTD	2003 Total
7090-01 Attorney Fees	\$71,317	\$89,627	\$72,263		\$233,207	\$166,641	\$243,801
7090-02 Costs & Expenses	1,035	2,350	2,041		5,426	3,906	5,741
7090-03 Medical/Vocational Reprt	102	278	33		413	809	1,239
7090-04 Deposition Costs	4,543	6,227	5,378		16,147	9,731	14,927
7090-05 Investigations	-	1,040	1,027		2,067	17,374	18,278
7090-06 Research or Briefs	-	-	-		-	-	-
7090-07 Appeal Attorney Fees	1,463	8,638	5,970		16,070	5,976	5,976
7090-08 Appeal Costs & Expenses	4	137	690		831	39	39
7090-12 Medical Expenses (IME)	650	-	-		650	600	600
7090-13 Rehabilitation	3,103	1,473	2,239		6,814	7,675	9,362
7090-14 Adjuster Expenses	1,614	7,758	2,470		11,842	11,702	17,406
7090-15 Refund	-	-	-		-	-	-
Total Litigation Expenditures	\$83,830	\$117,527	\$92,110		\$293,467	\$224,452	\$317,368

## ADMINISTRATIVE OPERATIONS

### *Revenue*

The ISIF was dependent on a levy system for revenue funding prior to July 1, 1997. The levy was a percent of certain paid benefits assessed to insurance companies and self-insured employers on individual claims at the time of claim closure. Over time the levy was inadequate to provide the sustained revenue needs of the ISIF.

Due to the prolonged inability of the levy to generate adequate funding, the workers' compensation industry and the ISIF drafted legislation and changed the funding method. As a result, the Idaho State Legislature passed a new funding formula based on an annual assessment of two times ISIF's fiscal year expenditures less cash available on June 30. The assessment is paid semi-annually by sureties, self-insured employers and the State Insurance Fund based on their pro-rata assessment share.

<b>ASSESSMENT FORMULA BASED ON FISCAL YEAR</b>								
Fiscal Year	1997	1998	1999	2000	2001	2002	2003	2004
Total Expenditures FY	\$2,437,624	\$2,914,649	\$3,166,801	\$3,952,194	\$4,489,865	\$4,588,902	\$4,902,891	\$4,720,163
Cash Available As of 6/30	1,303,876	504,787	2,084,943	3,218,756	3,547,992	4,613,314	5,208,312	5,227,340
Assessment	\$3,571,372	\$5,324,511	\$4,248,659	\$4,685,633	\$5,431,738	\$4,564,490	\$4,597,470	\$4,212,987

ASSESSMENT TIME LINE				
Assessment Date	Total Assessment	Indemnity Period	Due Date	Payment Amount
June 30, 1997	\$3,571,372	7-1-97 -->12-31-97 1-1-98 --> 6-30-98	Apr-98 Sep-98	\$1,785,686 \$1,785,686
June 30, 1998	\$5,324,511	7-1-98 -->12-31-98 1-1-99 --> 6-30-99	Apr-99 Sep-99	\$2,662,256 \$2,662,256
June 30, 1999	\$4,248,659	7-1-99 -->12-31-99 1-1-00 --> 6-30-00	Apr-00 Sep-00	\$2,124,330 \$2,124,330
June 30, 2000	\$4,685,633	7-1-00 -->12-31-00 1-1-01 --> 6-30-01	Apr-01 Sep-01	\$2,342,817 \$2,342,817
June 30, 2001	\$5,431,738	7-1-01 -->12-31-01 1-1-02 --> 6-30-02	Apr-02 Sep-02	\$2,715,869 \$2,715,869
June 30, 2002	\$4,564,490	7-1-02-->12-31-02 1-1-03--> 6-30-03	Apr-03 Sep-03	\$2,282,245 \$2,282,245
June 30, 2003	\$4,597,470	7-1-03-->12-31-03 1-1-04--> 6-30-04	Apr-04 Sep-04	\$2,298,735 \$2,298,735
June 30, 2004	\$4,212,987	7-1-04-->12-31-04 1-1-05--> 6-30-05	Apr-05 Sep-05	\$2,106,494 \$2,106,494

Without a change in revenue funding, the ISIF would have been unable to satisfy its obligations early in 1998. The current revenue system creates a method of funding that is equitable, accountable, and certain.

### *Expenditure*

The Industrial Special Indemnity Fund's administrative operating expenditures include salaries for three full time employees and general office expense. Total operational expenditures for calendar year 2003 were \$240,383. Operational expenditures for calendar year to date 2004 were \$164,540.

Benefit expense reflects all benefits paid in either lump sum, arrearage or monthly annuitant payments.

Total litigation costs, which include all costs associated with claims adjudication such as attorney fees and costs, depositions, vocational rehabilitation and investigation, have declined from highs of \$800,000 in 1995. In addition to the significant cost savings, the average number of litigation days per claim has also decreased. Litigation costs however, have substantially increased since calendar year 2003 due in part to higher claim filings and staffing shortage.



<b>REVENUE - EXPENDITURE REPORT</b>						
CALENDAR YEAR 2004						
<b>Revenue</b>	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2004 YTD	2003 Total
Beginning Cash Available	\$5,874,689	\$5,224,288	\$5,227,340		\$5,874,689	\$5,564,454
Levy/Interest	-	-	-		-	-
Assessment/Interest	67,953	2,409,172	691,033		3,168,157	4,739,081
Total Cash Available	\$5,942,641	\$7,633,460	\$5,918,372		\$9,042,846	\$10,303,535
<b>Expenditure</b>						
Administrative	\$48,831	\$62,858	\$52,850		\$164,540	\$240,383
Benefits	584,282	2,227,144	584,858		3,396,284	3,871,096
Litigation	83,830	117,527	92,110		293,467	317,368
Levy Refund	-	-	-		-	-
Total Expenditures	\$716,944	\$2,407,529	\$729,818		\$3,854,292	\$4,428,847
Encumbered	1,409	(1,409)	-		-	-
<b>Calendar Year 2004</b>						
Ending Cash Balance	\$5,224,288	\$5,227,340	\$5,188,554		\$5,188,554	\$5,874,689

<b>REVENUE - EXPENDITURE REPORT</b>						
FISCAL YEAR 2005						
<b>Revenue</b>	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2005 YTD	2004 Total
Beginning Cash Available	\$5,227,340				\$5,227,340	\$5,208,312
Levy/Interest	-				-	-
Assessment/Interest	691,033				691,033	4,739,191
Total Cash Available	\$5,918,372				\$5,918,372	\$9,947,503
<b>Expenditure</b>						
Administrative	\$52,850				\$52,850	\$227,304
Benefits	587,858				587,858	4,111,653
Litigation	92,110				92,110	381,206
Levy Refund	-				-	-
Total Expenditures	\$732,818				\$732,818	\$4,720,163
Encumbered	-				-	-
<b>Fiscal Year 2004</b>						
Ending Cash Balance	\$5,185,554				\$5,185,554	\$5,227,340